

**RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS**

**Financial Statements for the
Years Ended September 30, 2018 and 2017
And Independent Auditors' Report**

RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS

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Stephen M. Connelly, CPA, PC

PO Box 25528

Kansas City, MO 64119

816.718.9977

www.stephenmconnellycpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 6
Franklin County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 6 (District), Franklin County, Kansas, which comprise the statements of net position as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide (KMAAG). Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 6, Franklin County, Kansas as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "*Other Information*" on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we express no opinion on it.

Stephen M. Connelly, CPA, PE

December 1, 2018

RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	\$ 379,759	\$ 1,117,127
Certificates of deposit	256,906	575,263
Debt reserve funds	436,215	528,938
Accounts receivable	75,857	71,789
Prepaid insurance	10,883	9,435
Total current assets	1,159,620	2,302,552
 CAPITAL ASSETS, NET	 5,110,323	 4,175,332
	<u>\$ 6,269,943</u>	<u>\$ 6,477,884</u>
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 155,000	\$ 115,000
Accounts payable	5,580	15,784
Accrued liabilities	26,315	48,056
Total current liabilities	186,895	178,839
 LONG-TERM DEBT, less current portion	 2,785,000	 3,125,000
 NET POSITION:		
Net investment in capital assets	2,170,323	935,332
Restricted	436,215	528,938
Unrestricted	691,510	1,709,775
	<u>3,298,048</u>	<u>3,174,045</u>
	<u>\$ 6,269,943</u>	<u>\$ 6,477,884</u>

RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
WATER SALES	\$ 899,745	\$ 834,852
OPERATING EXPENSES:		
Personnel costs	197,516	192,860
Chemicals	52,086	20,947
Professional fees	5,979	6,413
Utilities and telephone	63,430	57,959
Insurance	40,356	35,823
Office supplies, dues, and meetings	14,708	12,291
Repairs, maintenance and supplies	88,568	106,156
Mileage	1,340	1,187
Vehicle	15,948	14,923
Lab fees	6,117	3,160
Water assurance and protection	8,903	9,586
Depreciation	197,546	193,054
Miscellaneous	80,391	21,062
	<u>772,887</u>	<u>675,421</u>
INCOME FROM OPERATIONS	<u>126,858</u>	<u>159,431</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	5,112	5,092
Interest expense	(84,520)	(112,591)
Other income	15,503	13,700
Late charges	13,799	14,213
	<u>(50,105)</u>	<u>(79,586)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	76,753	79,845
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>47,250</u>	<u>15,750</u>
CHANGE IN NET POSITION	124,003	95,595
NET POSITION, BEGINNING	<u>3,174,045</u>	<u>3,078,450</u>
NET POSITION, ENDING	<u>\$ 3,298,048</u>	<u>\$ 3,174,045</u>

RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 895,679	825,703
Payments to suppliers	(411,218)	(279,060)
Payments to employees	(197,516)	(192,860)
Net cash flow provided by operating activities	286,945	353,783
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and aid in construction	47,250	15,750
Payments on long-term debt	(2,917,033)	(115,000)
Proceeds from debt issuance	2,617,033	525,000
Interest paid	(84,520)	(112,591)
Acquisition and construction of capital assets	(1,132,536)	(266,298)
Net cash provided by capital and related financing activities	(1,469,806)	46,861
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Miscellaneous non-operating income	29,302	27,913
Net cash provided by non capital financing activities	29,302	27,913
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in debt reserve funds	92,722	(60,583)
Change in certificates of deposit	318,357	(2,545)
Interest received	5,112	5,090
Net cash used by investing activities	416,191	(58,039)
NET CHANGE IN CASH AND EQUIVALENTS	(737,369)	370,517
CASH AND EQUIVALENTS, BEGINNING OF YEAR	1,117,127	746,610
CASH AND EQUIVALENTS, END OF YEAR	\$ 379,759	\$ 1,117,127
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 126,858	\$ 159,431
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	197,546	193,054
Changes in:		
Accounts receivable	(4,068)	(9,150)
Prepaid insurance	(1,447)	(1,240)
Accounts payable	(10,205)	7,655
Accrued liabilities	(21,741)	4,033
Net cash provided by operating activities	286,945	353,783

RURAL WATER DISTRICT NO. 6

FRANKLIN COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the District. Total customers at September 30, 2018 and 2017 were 1,046 and 1,041, respectively.
- b. GASB Statement No. 34 – GASB Statement No. 34, known as the “Reporting Model” statement, affects the way the District prepares and presents financial information. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions, and includes:

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to analysis the private sector provides in their annual reports. Management has elected not to prepare the MD&A for this year.

Statement of Net Assets – This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Basis of Accounting - In the Statement of Net Assets and Statement of Revenues and expenses and Changes in Net, activities are presented using the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- d. Cash Equivalents - For purposes of the statements of cash flows, the District considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.
- e. Accounts Receivable – Prior to May 2004, the District required its members to read their own meters on the first day of each month, or the earliest date thereafter. Payments for water service are due the 15th day of the month or will be subject to a late charge of 15%. Failure to pay for water service by the first day of the month, following the month in which the water service was provided, shall result in discontinuance of service. Starting in May 2004, the District began reading meters using radio read system. The District water rates are as follows:

Residential and Commercial:

\$	28.50	Minimum rate, includes 0 gallons
\$	7.25	per 1,000 gallons

City of Lane:

\$	5.30	per 1,000 gallons
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City of Rantoul:

\$	5.30	per 1,000 gallons
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- e. Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- f. Income Taxes - The District is a tax-exempt government entity and is not subject to federal or state income taxes.
- g. Benefit Units - Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$5,250 and are recognized when sold.
- h. Aid in Construction - Aid in Construction represents contributions from the members for line extensions.
- i. Inventory - The District does not maintain inventory; all supplies and parts are expensed when purchased.
- j. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND DEPOSITS

The carrying amounts of the District's deposits at September 30, 2018 were \$1,072,880. The cash and deposits were covered by depository insurance or by collateral held by the District's agent in the District's name.

Under K.S.A. 12-1675, the State of Kansas limits the types of investments municipalities can invest in, including Rural Water Districts. As a result, the cash and deposits of the District are considered low risk investments.

The following represents a detail of the cash and deposits of the District:

	2018	2017
Peoples National Bank - Operating Account	\$ 86,341	\$ 578,803
Peoples National Bank - Savings	2,560	8,221
Citizen's Bank - Savings	-	242,388
Mid-America Bank - Savings	<u>290,857</u>	<u>287,715</u>
	<u>379,760</u>	<u>1,117,127</u>
Certificates of Deposit		
Peoples National Bank	\$ 44,009	44,009
Peoples National Bank	61,495	61,495
Kansas State Bank	-	50,263
Kansas State Bank	60,996	60,722
Patriots Bank	90,407	90,407
Bank of Greeley	-	151,469
Arvest Bank	-	110,047
Arvest Bank	<u>-</u>	<u>6,853</u>
Current Portion of Certificates of Deposit	\$ <u>256,904</u>	\$ <u>575,263</u>

3. CAPITAL ASSETS

	2018	2017
Land and well sites	\$ 38,949	\$ 38,949
Office building	98,564	97,472
Water treatment plant and equipment	3,333,410	3,213,368
Distribution system	3,298,357	3,298,357
Tanks	639,136	639,136
Clarifier	1,201,950	223,000
Pump stations	473,990	473,990
Office equipment and vehicles	<u>156,261</u>	<u>123,809</u>
	9,240,617	8,108,081
Less accumulated depreciation	<u>4,130,295</u>	<u>3,932,749</u>
	\$ <u>5,110,322</u>	\$ <u>4,175,332</u>

2018				
		Additions	Disposals	
Land and Well Sites	\$ 38,949	\$	\$	\$ 38,949
Office Building	97,472	1,092		98,564
Water Treatment Plant	3,213,368	120,042		3,333,410
Distribution System	3,298,357			3,298,357
Pump Stations	639,136			639,136
Clarifier	223,000	978,950		1,201,950
Tanks	473,990			473,990
Office Equipment and Vehicles	<u>123,809</u>	<u>32,452</u>		<u>156,261</u>
	<u>\$ 8,108,081</u>	<u>\$ 1,132,536</u>	<u>\$</u>	<u>\$ 9,240,617</u>

2017				
		Additions	Disposals	
Land and Well Sites	\$ 38,949	\$	\$	\$ 38,949
Office Building	96,178	1,294		97,472
Water Treatment Plant	3,211,773	1,595		3,213,368
Distribution System	3,257,826	40,531		3,298,357
Pump Stations	639,136			639,136
CIP		223,000		223,000
Tanks	473,990			473,990
Office Equipment and Vehicles	<u>123,809</u>			<u>123,809</u>
	<u>\$ 7,841,661</u>	<u>\$ 266,420</u>	<u>\$</u>	<u>\$ 8,108,081</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
Buildings	5,000	Straight Line	10-30 years
Water System	5,000	Straight Line	10-50 years
Office Equipment	5,000	Straight Line	3-7 years
Vehicles	5,000	Straight Line	10 years

4. RESTRICTED NET ASSETS

The following represents assets, which have been restricted:

Debt Reserve Funds	\$ <u>436,215</u>
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5. LONG-TERM DEBT

In 2012, the District issued Water Revenue Bonds Series 2012 in the amount of \$3,285,000 (\$0 outstanding at September 30, 2018) in order to refinance the existing Rural Development Loan. The bonds bear interest at rates ranging from 1.0 to 4.375%. Repayment on the bonds begins May 2017. Based on the current outstanding balance, the District will make semi-annual principal and interest payments over a 21 year period.

In 2017, the District issued Water Revenue Bonds Series 2017 in the amount of \$525,000 (\$525,000 outstanding at September 30, 2018) in order to finance certain improvements to the water system. The bonds bear interest at 2.5%. Repayment on the bonds begins November 2018. Based on the current outstanding balance, the District will make semi-annual principal and interest payments over a 7 year period. Revenues of the District have been pledged as security.

In 2017, the District issued Refunding Bonds Series 2017 in the amount of \$2,580,000 (\$2,415,000 outstanding at September 30, 2018) in order to refinance the Water Revenue Bond Series 2012. The bonds bear interest at 2.0%-3.25%. Repayment on the bonds begins May 2018. Based on the current outstanding balance, the District will make semi-annual principal and interest payments over a 12 year period. Revenues of the District have been pledged as security.

	Roll forward of long-term debt:				
	<u>Beginning Balance</u>	<u>Advances</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long Term Debt	\$ 3,240,000	\$ 2,580,000	\$ 2,880,000	\$ 2,940,000	\$ 155,000

Maturities of the bonds for years subsequent to September 30, 2018 are as follows:

Refunding Bonds Series 2017

	Principal	Interest	Total
2018	165,000	60,683	225,683
2019	155,000	64,450	219,450
2020	165,000	59,650	224,650
2021	170,000	54,625	224,625
2022	175,000	49,450	224,450
2023	180,000	45,025	225,025
2024	185,000	41,375	226,375
2025	185,000	37,444	222,444
2026	190,000	32,988	222,988
2027	190,000	28,000	218,000
2028	200,000	22,513	222,513
2029	205,000	16,563	221,563
2030	205,000	10,156	215,156
2031	210,000	3,413	213,413

<u>\$ 2,580,000</u>	<u>\$ 526,333</u>	<u>\$ 3,106,333</u>
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Revenue Bonds, Series 2017

2018	\$	-	\$	12,833	\$	12,833
2019		70,000		12,250		82,250
2020		70,000		10,500		80,500
2021		75,000		8,688		83,688
2022		75,000		6,813		81,813
2023		75,000		4,938		79,938
2024		80,000		3,000		83,000
2025		80,000		1,000		81,000
	\$	<u>525,000</u>	\$	<u>60,021</u>	\$	<u>585,021</u>

6. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located primarily in Franklin and Miami Counties, Kansas. The District grants credit to those customers and requires no collateral. The District sells water to the Cities of Rantoul, Lane and Central Heights, which accounts for 8% of the gallons sold in 2018.

7. PENSION PLAN

General Information about the Pension Plan

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by KSA 74-4901, etc. seq. Kansas Law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. KSA 74-4919 and KSA 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2017. Effective January 1, 2017, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not

including the 0.85% contribution rate for Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended September 30, 2018. Contributions to the pension plan from the District were \$14,411 for the year ended September 30, 2018.

Net Pension Liability

At December 31, 2017, the District's estimated proportionate share of the collective net pension liability was \$133,446. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2017. The City's proportion of the net pension liability was based on the ratio of the City's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in these financial statements.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

8. WATER SALES CONTRACT

In 1998, the District entered into contracts to sell water to the Cities of Rantoul and Lane, Kansas (Cities). Under the contract, the Cities will pay the District \$5.30 per 1,000 gallons and a fixed monthly fee of \$300. In addition, the Cities may not purchase more than 35,000 gallons per day.

9. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended September 30, 2018.

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through various insurance policies. See supplemental schedule for details of the various insurance policies.

11. COMPENSATED ABSENCES

Each full-time employee earns vacation for the years that the employee has been employed. After the first year of service an employee earns 40 hours of vacation and after three years, 80 hours is earned. Vacation time is lost if not used in the year earned. Additionally, each full-time employee earns sick time each year, however, accumulated sick time cannot be compensated upon termination of employment.

12. NET INVESTMENT IN CAPITAL ASSETS

The following represents the net investment in capital assets:

Capital assets, net	\$	5,084,361
Outstanding debt		<u>(2,940,000)</u>
	\$	<u><u>2,144,361</u></u>

13. RELATED PARTIES

The members of the board and the employees are within in the District boundaries and receive water from the District.

14. LEASES

The District has a lease agreement with a telecommunications company (Company) whereby the Company leases the use of certain District towers for the placement of antennae and other telecommunications equipment for a total period of 3 years.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events from the date of the financial statements through December 1, 2018, the date the financial statements were available to be issued, and determined there are no other items to disclose.

RURAL WATER DISTRICT NO. 6
FRANKLIN COUNTY, KANSAS

SCHEDULE OF STATISTICAL INFORMATION
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Gallons sold	75,202,700	69,105,800
Number of benefit units	1,046	1,041
Average monthly usage per benefit unit	5,991	4,992
Average monthly water sale per benefit unit	\$ 71.68	\$ 66.83
Average monthly operating expenses per benefit unit	\$ 61.58	\$ 54.08
Average monthly interest expense per benefit unit	\$ 6.73	\$ 9.01
Average monthly depreciation per benefit unit	\$ 15.74	\$ 15.45